

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FLOYD COUNTY FISCAL COURT

June 30, 2007

The Auditor Of Public Accounts has completed the audit of the Floyd County Fiscal Court for fiscal year ended June 30, 2007.

The financial statements of the East Kentucky Utilities, Inc., a discretely presented component unit, have not been audited, and we were not engaged to audit the component unit's financial statements as part of our audit of the county's basic financial statements. As a result, we have issued an adverse opinion on the aggregate discretely presented component units.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Floyd County, Kentucky.

Financial Condition:

The Fiscal Court had a net assets deficit of \$157,503 as of June 30, 2007. The Fiscal Court had unrestricted net assets of \$1,059,694 in its governmental activities as of June 30, 2007, with a total net assets deficit of \$287,150. In its business-type activities, total net cash and cash equivalents were \$98,693 with total net assets of \$129,647. The fiscal court had total debt principal as of June 30, 2007 of \$20,074,086 with \$1,467,950 due within the next year.

Report Comments:

- | | |
|--------|--|
| 2007-1 | The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund |
| 2007-2 | The Fiscal Court Should Ensure The Quarterly Report - Liabilities Section Is Accurate |
| 2007-3 | The Fiscal Court Should Require Bids For All Purchases Over \$20,000 |
| 2007-4 | The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets |
| 2007-5 | The Fiscal Court Should Pursue A Buyer To Purchase East Kentucky Utilities, Inc. |

Deposits:

The Fiscal Court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To The People Of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance And Administration Cabinet
Honorable Robert Marshall, Floyd County Judge/Executive
Members Of The Floyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the county's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Floyd County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in government auditing standards issued by the comptroller general of the united states, and the audit guide for fiscal court audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, Floyd County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include financial data of the East Kentucky Utilities, Inc., an entity that meets the criteria to be reported as a legally separate discretely presented component unit of Floyd County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Floyd County, Kentucky, as of June 30, 2007, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Floyd County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2008 on our consideration of Floyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund
- 2007-2 The Fiscal Court Should Ensure The Quarterly Report - Liabilities Section Is Accurate
- 2007-3 The Fiscal Court Should Require Bids For All Purchases Over \$20,000
- 2007-4 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets
- 2007-5 The Fiscal Court Should Pursue A Buyer To Purchase East Kentucky Utilities, Inc.

Respectfully Submitted,



Crit Luallen
Auditor Of Public Accounts

June 13, 2008

Floyd County Officials

For The Year Ended June 30, 2007

Fiscal Court Members:

Robert Marshall	County Judge/Executive
Ronnie Akers	Magistrate
Donny Daniels	Magistrate
John Goble	Magistrate
Jackie Owens	Magistrate

Other Elected Officials:

Keith Bartley	County Attorney
Roger Webb	Jailer
Chris Waugh	County Clerk
Doug Hall	Circuit Court Clerk
John K. Blackburn	Sheriff
Connie Hancock	Property Valuation Administrator
Roger Nelson	Coroner

Appointed Personnel:

David Layne	County Treasurer
Candace O'Quinn	Finance Officer

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FLOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

FLOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,783,655	\$ 98,693	\$ 1,882,348
Assets Held For Resale	551,204		551,204
Total Current Assets	2,334,859	98,693	2,433,552
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	3,501,249		3,501,249
Buildings	11,032,899		11,032,899
Other Equipment	364,902		364,902
Vehicles and Equipment	1,081,578	30,954	1,112,532
Infrastructure Assets - Net of Depreciation	1,471,449		1,471,449
Total Noncurrent Assets	17,452,077	30,954	17,483,031
Total Assets	19,786,936	129,647	19,916,583
LIABILITIES			
Current Liabilities:			
Bonds	785,000		785,000
Notes	20,000		20,000
Financing Obligations	662,950		662,950
Total Current Liabilities	1,467,950		1,467,950
Noncurrent Liabilities:			
Bonds	13,425,000		13,425,000
Notes	2,185,000		2,185,000
Financing Obligations	2,996,136		2,996,136
Total Noncurrent Liabilities	18,606,136		18,606,136
Total Liabilities	20,074,086		20,074,086
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(2,070,805)	30,954	(2,039,851)
Restricted For:			
Debt Service	723,961		723,961
Unrestricted	1,059,694	98,693	1,158,387
Total Net Assets	\$ (287,150)	\$ 129,647	\$ (157,503)

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,463,834	\$ 61,496	\$ 428,524	\$
Protection to Persons and Property	1,674,581	330,347	414,405	649,450
General Health and Sanitation	3,391,058	1,909,722	860,724	516,095
Social Services	77,545			
Recreation and Culture	806,797		99,099	108,600
Roads	1,872,178		3,541,536	
Airports	46,535			
Debt Service	946,649			
Capital Projects	753,931			1,827,015
Total Governmental Activities	13,033,108	2,301,565	5,344,288	3,101,160
Business-type Activities:				
Jail Canteen	16,376	33,415		
Total Business-type Activities	16,376	33,415		
Total Primary Government	\$ 13,049,484	\$ 2,334,980	\$ 5,344,288	\$ 3,101,160

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

Floyd County
Statement Of Activities - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,973,814)	\$	\$ (2,973,814)
(280,379)		(280,379)
(104,517)		(104,517)
(77,545)		(77,545)
(599,098)		(599,098)
1,669,358		1,669,358
(46,535)		(46,535)
(946,649)		(946,649)
1,073,084		1,073,084
(2,286,095)		(2,286,095)
	17,039	17,039
	17,039	17,039
(2,286,095)	17,039	(2,269,056)
1,020,794		1,020,794
413,324		413,324
423,612		423,612
1,061,156		1,061,156
71,168		71,168
365,749		365,749
50,899		50,899
3,406,702		3,406,702
1,120,607	17,039	1,137,646
(1,407,757)	112,608	(1,295,149)
\$ (287,150)	\$ 129,647	\$ (157,503)

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Public Properties Corporation Fund
ASSETS					
Cash and Cash Equivalents	\$ 348,988	\$ 91,022	\$ 78,182	\$ 405,109	\$ 723,961
Total Assets	<u>\$ 348,988</u>	<u>\$ 91,022</u>	<u>\$ 78,182</u>	<u>\$ 405,109</u>	<u>\$ 723,961</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 151,742	\$ 3,728	\$ 5,380	\$ 70,993	\$
Unreserved:					
General Fund	197,246				
Special Revenue Funds		87,294	72,802	334,116	
Debt Service Fund					723,961
Total Fund Balances	<u>\$ 348,988</u>	<u>\$ 91,022</u>	<u>\$ 78,182</u>	<u>\$ 405,109</u>	<u>\$ 723,961</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 136,393</u>	<u>\$ 1,783,655</u>
<u><u>\$ 136,393</u></u>	<u><u>\$ 1,783,655</u></u>

\$ 317	\$ 232,160
	197,246
136,076	630,288
<u> </u>	<u>723,961</u>
<u><u>\$ 136,393</u></u>	<u><u>\$ 1,783,655</u></u>

Reconciliation of the Balance Sheet - Governmental Funds To The Statement Of Net Assets

Total Fund Balances	\$ 1,783,655
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	21,731,349
Accumulated Depreciation	(4,279,272)
Assets Held For Resale Are Not Current Financial Resources And Therefore Are Not Reported In The Funds	551,204
Debt Not Due And Payable In The Current Period And, Therefore, Not Reported In The Funds.	
Due In One Year	(1,467,950)
Due In More Than One Year	<u>(18,606,136)</u>
Net Assets Of Governmental Activities	<u><u>\$ (287,150)</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 2,504,384	\$	\$	\$
In Lieu Tax Payments	52,185			
Excess Fees	71,168			
Licenses and Permits	12,672			
Intergovernmental	566,654	1,400,920	560,335	3,650,421
Charges for Services	1,909,722		3,896	99,099
Miscellaneous	160,589		30,867	2,055,852
Interest	4,809	2,960	740	6,659
Total Revenues	<u>5,282,183</u>	<u>1,403,880</u>	<u>595,838</u>	<u>5,812,031</u>
EXPENDITURES				
General Government	2,068,174			123,134
Protection to Persons and Property	97,217		1,303,701	112,000
General Health and Sanitation	2,027,011			1,354,232
Social Services	62,447			
Recreation and Culture	8,086			784,771
Roads		1,196,300		1,355,836
Bus Services	46,535			
Debt Service	251,616	56,833		20,416
Capital Projects				753,864
Administration	809,124	481,978	357,397	159,124
Total Expenditures	<u>5,370,210</u>	<u>1,735,111</u>	<u>1,661,098</u>	<u>4,663,377</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(88,027)</u>	<u>(331,231)</u>	<u>(1,065,260)</u>	<u>1,148,654</u>
Other Financing Sources (Uses)				
Bond Proceeds				
Financing Obligation Proceeds		339,010		275,000
Transfers From Other Funds	614,050	200,000	1,550,000	
Transfers To Other Funds	(838,331)	(250,000)	(463,912)	(1,550,000)
Total Other Financing Sources (Uses)	<u>(224,281)</u>	<u>289,010</u>	<u>1,086,088</u>	<u>(1,275,000)</u>
Net Change in Fund Balances	(312,308)	(42,221)	20,828	(126,346)
Fund Balances - Beginning (Restated)	661,296	133,243	57,354	531,455
Fund Balances - Ending	<u>\$ 348,988</u>	<u>\$ 91,022</u>	<u>\$ 78,182</u>	<u>\$ 405,109</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 226,466	\$ 2,730,850
		52,185
		71,168
		12,672
742,377	54,999	6,975,706
		2,012,717
	210	2,247,518
34,823	908	50,899
<u>777,200</u>	<u>282,583</u>	<u>14,153,715</u>
	217,888	2,409,196
		1,512,918
	9,030	3,390,273
		62,447
		792,857
		2,552,136
		46,535
3,710,090	5,008	4,043,963
	67	753,931
	14,096	1,821,719
<u>3,710,090</u>	<u>246,089</u>	<u>17,385,975</u>
<u>(2,932,890)</u>	<u>36,494</u>	<u>(3,232,260)</u>
2,205,000		2,205,000
		614,010
752,243		3,116,293
<u>(14,050)</u>		<u>(3,116,293)</u>
<u>2,943,193</u>		<u>2,819,010</u>
10,303	36,494	(413,250)
713,658	99,899	2,196,905
<u>\$ 723,961</u>	<u>\$ 136,393</u>	<u>\$ 1,783,655</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

FLOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (413,250)
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Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	1,170,836
Depreciation Expense	(466,487)
Assets Held For Resale	551,204

The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, While the Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.

Financing Obligation Proceeds	(614,010)
Debt Proceeds	(2,205,000)
Financing Obligations Principal Payments	107,314
Bond Debt Principal Payments	750,000
Payment to Refund Notes	<u>2,240,000</u>

Change in Net Assets of Governmental Activities	<u>\$ 1,120,607</u>
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FLOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

FLOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 98,693
Total Current Assets	<u>98,693</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	
Less Accumulated Depreciation	<u>30,954</u>
Total Noncurrent Assets	<u>30,954</u>
Total Assets	<u>129,647</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	30,954
Unrestricted	<u>98,693</u>
Total Net Assets	<u>\$ 129,647</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 33,415
Total Operating Revenues	<u>33,415</u>
Operating Expenses	
Educational and Recreational	2,920
Personnel Costs	773
Depreciation	5,896
Vehicle Maintenance	4,689
Miscellaneous	<u>2,098</u>
Total Operating Expenses	<u>16,376</u>
Operating Income	<u>17,039</u>
Change In Net Assets	17,039
Total Net Assets - Beginning	<u>112,608</u>
Total Net Assets - Ending	<u><u>\$ 129,647</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

FLOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 33,415
Educational and Recreational	(2,920)
Personnel Costs	(773)
Vehicle Maintenance	(4,689)
Miscellaneous	(2,098)
Net Cash Provided By Operating Activities	<u>22,935</u>
Cash Flows From Capital and Related Financing Activities	
Net Cash (Used) Provided By Capital and Related Financing Activities	<u>(36,850)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,915)
Cash and Cash Equivalents - July 1, 2006 (Restated)	<u>112,608</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 98,693</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 17,039
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>5,896</u>
Net Cash Provided By Operating Activities	<u><u>\$ 22,935</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

FLOYD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Agency Fund</u>		
	<u>Inmate Account Fund</u>	<u>Bail Bonds Fund</u>	<u>Total Agency Funds</u>
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 9,014	\$ 390	\$ 9,404
Total Assets	<u>9,014</u>	<u>390</u>	<u>9,404</u>
Liabilities			
Amounts Held In Custody For Others	<u>9,014</u>	<u>390</u>	<u>9,404</u>
Total Liabilities	<u>\$ 9,014</u>	<u>\$ 390</u>	<u>\$ 9,404</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Floyd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Floyd County Public Properties Corporation

The directors of the Floyd County Public Properties Corporation (PPC) are the duly elected County Judge/Executive and the other duly elected members of the Fiscal Court. The term of each director of the Corporation coincides with the director's term of office as a member of the Fiscal Court. Consequently, the governing board of the Corporation is entirely composed of Fiscal Court members and the Fiscal Court has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

The Floyd County Fiscal Court must approve the issuance of bonded debt for the Public Properties Corporation; therefore, the Floyd County Public Properties Corporation is fiscally dependent.

Discretely Presented Component Unit

East Kentucky Utilities, Inc.

East Kentucky Utilities, Inc. (EKU) is a legally separate entity established to provide natural gas supply services to the customers of the Floyd County Gas System, a system owned by Floyd County, Kentucky. Prior to October 29, 2004, ECU was governed by a Board whose members were elected independently of the Floyd County Fiscal Court and consisted of a governing body that was substantially different from that of the Fiscal Court. However, due to circumstances requiring the Fiscal Court to assume management control of ECU from October 29, 2004, through the end of the audit period, the fiscal court has pledged some degree of financial responsibility for ECU. Furthermore, three members of the Fiscal Court have served as members of ECU's board during this time frame. These circumstances require management to include the Board as a component unit at this time. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board should be presented discretely. However, this component unit has been omitted from the County's financial statements.

C. Floyd County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Floyd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Floyd County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The purpose of this fund is to account for funds received from state grants. These funds may be used for public safety, environmental protection, and economic development.

Floyd County Public Properties Corporation – The Floyd County Public Properties Corporation accounts for the activities of the Public Properties Corporation (PPC), a blended component unit of the County. The Public Properties Corporation issued debt to build major facilities or additions to be used by the County such as the County's Detention Center and its Solid Waste/Landfill facility, or to be leased to other agencies. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky, in which AOC wishes to use and sublease all or a portion of certain facilities owned by the County. Receipts also include bond principal and interest payments from the East Kentucky Utilities, Inc. relative to the Floyd County Gas System for a portion of the 1999 Revenue Refunding Bonds and the Floyd County Racing Commission and Appalachian Racing, Inc. for the entire amount of the principal and interest payments made on the Fairgrounds and Convention Center Bonds. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: State Grants Fund, Federal Grant Fund, Bond Anticipation Fund, Revolving Loan Fund, and Enhanced 911 Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, Federal Grant Fund, Revolving Loan Fund, and Enhanced 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Bond Anticipation Bond Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Fund is presented as debt service fund. Debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account and Bail Bond Funds for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from inmates of the jail for the jail commissary and returned after their release.

Bail Bonds Fund - This fund accounts for funds of bail bonds collected from inmates and turned over to the Circuit Court Clerk.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	40-75
Buildings and Building Improvements	\$ 25,000	40-75
Machinery and Equipment	\$ 2,500	5-25
Vehicles	\$ 2,500	5-20
Infrastructure	\$ 20,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Floyd County Public Properties Corporation Fund (blended component unit) and the Jail Canteen Fund are not budgeted by the County Treasurer. The Department for Local Government does not require the fiscal court to report or budget these funds.

J. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Floyd County Fiscal Court:

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Venture (Continued)

The Auxier and West Van Lear Sewage Collection Projects:

On April 20, 2001, the County of Floyd, Kentucky, the City of Paintsville, DBA Paintsville Utilities, and the County of Johnson, Kentucky entered into a Memorandum of Understanding related to the construction of the Auxier and West Van Lear Sewage Collections Projects. A Community Development Block Grant had been awarded to the Floyd County Fiscal Court for the Auxier project in the amount of \$840,000. The City of Paintsville had been awarded an Environmental Protection Agency Grant in the amount of \$1,900,000. Ultimate ownership and maintenance responsibilities for the collection systems will belong to Paintsville. Floyd County granted Paintsville the authority to negotiate and enter into a binding contract with PEH Engineers for engineering services in connection with both projects. Any costs associated with these projects over and above the amounts of the CDBG funds shall be the responsibility of Paintsville. However, Floyd County agrees to assist Paintsville with the expenses of blacktopping, if and only if there is a budget shortfall regarding that particular line item.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1(d)). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Operating Leases

The Fiscal Court entered into two lease agreements with C&M Leasing Company, Inc. for two 2007 Chevrolet Tahoes to be used by the County Judge/Executive and the 911 Coordinator. The agreement requires monthly lease rental expenditures of \$824 a month for each lease for 39 months. The total expense related to these leases was \$4,792 for the fiscal year ended June 30, 2007.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,801,249	\$ 700,000	\$	\$ 3,501,249
Total Capital Assets Not Being Depreciated	2,801,249	700,000		3,501,249
Capital Assets, Being Depreciated:				
Buildings	13,606,434	123,134		13,729,568
Other Equipment	607,914			607,914
Vehicles and Equipment	1,997,352	96,306		2,093,658
Infrastructure	1,547,564	251,396		1,798,960
Total Capital Assets Being Depreciated	17,759,264	470,836		18,230,100
Less Accumulated Depreciation For:				
Buildings	(2,515,040)	(181,629)		(2,696,669)
Other Equipment	(208,264)	(34,748)		(243,012)
Vehicles and Equipment	(888,430)	(123,650)		(1,012,080)
Infrastructure	(201,051)	(126,460)		(327,511)
Total Accumulated Depreciation	(3,812,785)	(466,487)		(4,279,272)
Total Capital Assets, Being Depreciated, Net	13,946,479	4,349		13,950,828
Governmental Activities Capital Assets, Net	<u>\$ 16,747,728</u>	<u>\$ 704,349</u>	<u>\$ 0</u>	<u>\$ 17,452,077</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$	\$ 36,850	\$	\$ 36,850
Total Capital Assets Being Depreciated		36,850		36,850
Less Accumulated Depreciation For:				
Vehicles and Equipment		(5,896)		(5,896)
Total Accumulated Depreciation		(5,896)		(5,896)
Total Capital Assets, Being Depreciated, Net		30,954		30,954
Business-Type Activities Capital Assets, Net	\$ 0	\$ 30,954	\$ 0	\$ 30,954

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 68,553
Protection to Persons and Property	161,663
General Health and Sanitation	785
Recreation and Culture	17,440
Social Services	15,098
Roads, Including Depreciation of General Infrastructure Assets	<u>202,948</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 466,487</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 5,896</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,896</u>

Note 5. Short-term Debt

A. Kentucky Advance Revenue Program

In July 2006, Floyd County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$241,050, with the principal being due in January 2007.

B. Mac Trucks

In January 2007, Floyd County entered into a lease agreement with Kentucky Area Development Districts Financing Trust in the amount of \$275,000. The lease was used to refinance the prior year lease used to purchase three MAC trucks. The refinance was necessary because the sale of the equipment was delayed. Terms of the agreement stipulate a six-month repayment schedule with one principal and interest payment due in August 2007.

C. Dump Trucks

In March 2007, Floyd County entered into a lease agreement with Kentucky Area Development Districts Financing Trust in the amount of \$276,204. The lease was used to purchase three MAC trucks. Terms of the agreement stipulate a one-year repayment schedule with monthly interest payments and a fixed yearly principal payment. The principal of \$276,204 and final payment is due in March 2008.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Short-term Debt (Continued)

D. Changes In Short-term Liabilities

Short-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Kentucky Advance Revenue Program	\$	\$ 214,500	\$ 214,500	\$	\$
Financing Obligations	265,000	551,204	265,000	551,204	551,204
Governmental-type Activities					
Short-term Liabilities	\$ 265,000	\$ 765,704	\$ 479,500	\$ 551,204	\$ 551,204

Note 6. Long-term Debt

A. General Obligation Refinancing Bonds, Series 1999 - Detention, Solid Waste, and Gas

In April 1999, The Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,445,000 in General Obligation Refunding Bonds, Series 1999. The proceeds from these refunding bonds were used to refinance the 1999 East Kentucky Utilities Gas Systems Bonds, the 1994 Solid Waste Refunding and Improvement Revenue Bonds, and the 1994 Detention Facility First Mortgage Revenue Bonds. These bonds are scheduled to mature in 2019 and carry an interest rate of 4.35% to 4.4%. Semiannual interest payments are required in September and March. As of June 30, 2007, the principal balance outstanding on these bonds was \$6,055,000. Debts service requirements for fiscal year ending June 30, 2007, and subsequent years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 510,000	\$ 266,034
2009	525,000	243,848
2010	545,000	220,880
2011	575,000	196,900
2012	600,000	171,600
2013-2017	2,420,000	484,880
2018-2019	880,000	58,520
Totals	\$ 6,055,000	\$ 1,642,662

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

B. First Mortgage Revenue Refunding Bonds, Series 2002 - Justice Center Project

On September 2002, the Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,165,000 in First Mortgage Revenue Bonds, Series 2002. The proceeds from these refunding bonds were used to refinance the 1995 First Mortgage Revenue Bonds, Series A and 1996 First Mortgage Revenue Bonds, Series B. These bonds are scheduled to mature in 2002 and carry an interest rate of 3.0% to 4.75%. Semiannual interest payments are required in September 1 and March 1 of each year.

The Floyd Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Justice Center. The Floyd Public Properties Corporation expects rentals for use of the Justice Center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Floyd Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The Administrative Office of the Courts with the execution of the lease of expressed its intention to continue to pay the full allowance payment in successive biennial budget period until September 2023. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2007, the principal balance on these bonds was \$8,155,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 275,000	\$ 344,937
2009	280,000	335,917
2010	290,000	326,438
2011	300,000	316,256
2012	315,000	305,298
2013-2017	1,760,000	1,331,031
2018-2022	2,180,000	912,434
2023-2027	2,755,000	339,506
Totals	<u>\$ 8,155,000</u>	<u>\$ 4,211,817</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

C. First Mortgage Revenue Anticipation Notes, Series 2007 - Convention Facility - Racetrack

In April 2007, The Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,205,000 in First Mortgage Revenue Anticipation Notes, Series 2007. The proceeds from these refunding notes were used to refinance the First Mortgage Revenue Anticipation Notes, Series 2004 associated with the Thunder Ridge Fairground and Convention Center. These notes are scheduled to mature in May 2007 and carry an interest rate of 3%. Semiannual interest payments are required in November and May and the full principal amount is due in May 2011. As of June 30, 2007, the principal balance outstanding on these notes was \$2,205,000. Debts service requirements for fiscal year ending June 30, 2007, and subsequent years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 20,000	\$ 99,225
2009	20,000	98,325
2010	20,000	97,425
2011	2,145,000	96,525
Totals	<u>\$ 2,205,000</u>	<u>\$ 391,500</u>

D. Big Sandy Area Development District - Office Building

On October 16, 1992, Floyd County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$850,000. Under a sublease agreement, the Big Sandy Area Development District will pay tot the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 25 years to be paid in full January 20, 2018. The principal balance remaining as of June 30, 2007 was \$506,000. Lease payments for the remaining year are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 35,000	\$ 26,109
2009	37,000	24,190
2010	39,000	22,182
2011	41,000	20,057
2012	43,000	17,856
2013-2017	252,000	46,704
2018	59,000	4,843
Totals	<u>\$ 506,000</u>	<u>\$ 161,941</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

E. KADD - Southern Water

In June 2006, the Floyd County entered into a lease agreement with Kentucky Area Development Districts Financing Trust, Series 2006K in the amount of \$2,600,000. The lease was used to refund the First Mortgage Revenue Bond Anticipation 2004 B in the amount of \$2,455,000. Terms of the agreement stipulate a thirty-year repayment schedule, with biannual interest payments at a fixed rate of 4.56%. The principal amount is due December 1, and June 1, of each year. As of June 30, 2007, the principal balance was \$2,495,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 50,000	\$ 109,756
2009	50,000	108,256
2010	55,000	106,606
2011	55,000	104,790
2012	55,000	102,866
2013-2017	320,000	481,038
2018-2022	385,000	409,052
2023-2027	480,000	314,090
2028-2032	605,000	191,528
2033-2035	440,000	42,066
Totals	<u>\$ 2,495,000</u>	<u>\$ 1,970,048</u>

F. Case Backhoe

In February 2006, Floyd County entered into a lease agreement with Wilson Equipment and CNH Capital for a 580 Super Case Backhoe. The principal amount of the lease was \$70,423 in which a down payment was required. The agreement requires fixed monthly payments for 60 months with \$1 bargain purchase price due in March 2011. As of June 30, 2007, the remaining principal outstanding was \$51,644. Lease payments for the remaining year are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 14,085	\$ 2,715
2009	14,085	2,715
2010	14,085	2,715
2011	9,389	1,810
Totals	<u>\$ 51,644</u>	<u>\$ 9,955</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

G. Caterpillar Backhoe

In September 2006, Floyd County entered into a lease agreement with Caterpillar Financial Services Corporation for a 420 Backhoe. The principal amount on the lease was \$62,806. The agreement requires fixed monthly payments for the 48 months with \$1 bargain price due in September 2011. As of June 30, 2007, the remaining principal outstanding was \$55,238. Lease payments for the remaining year are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 12,661	\$ 2,744
2009	12,375	1,845
2010	13,008	1,212
2011	13,669	551
2012	3,525	30
Totals	<u>\$ 55,238</u>	<u>\$ 6,382</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 6,540,000	\$	\$ 485,000	\$ 6,055,000	\$ 510,000
Revenue Bonds	10,660,000		2,505,000	8,155,000	275,000
Notes		2,205,000		2,205,000	20,000
Financing Obligations	<u>3,152,390</u>	<u>62,806</u>	<u>107,314</u>	<u>3,107,882</u>	<u>111,746</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 20,352,390</u>	<u>\$ 2,267,806</u>	<u>\$ 3,097,314</u>	<u>\$ 19,522,882</u>	<u>\$ 916,746</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$144,993 in interest on financing obligations and \$654,956 in interest on bonds and notes.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Garth Landfill

The Garth Landfill quit accepting garbage in the mid 1990's. The Fiscal Court must comply with established state and federal landfill closure and post closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. During the fiscal year ended June 30, 2007, the County incurred \$114,971 for monitoring, supplies, equipment and testing associated with the closing of the Garth Landfill.

Note 9. Commitment - Non-Federal Sponsor of the Town of Martin Non-Structural Flood Control Project

Floyd County is the non-federal sponsor of the Town of Martin Non-Structural Flood Control Project. The state of Kentucky is required to provide a 5% match of the estimated project expenditure of federal monies. As the project's non-federal sponsor, Floyd County has agreed to contribute 5% matching requirement. During the fiscal year ended June 30, 2007, the Fiscal Court contributed \$19,737 toward this project.

Note 10. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 11. Deferred Compensation

The Floyd County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 11. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 12. Insurance

For the fiscal year ended June 30, 2007, Floyd County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 13. Prior Period Adjustments

A. Adjustments to Beginning Fund Balances

	General Fund	LGEA Fund	State Grant Fund	Federal Grant Funds	Public Properties Corp Fund	Solid Waste Fund
Prior Year Ending Balance	\$ 697,030	\$ 479,385	\$ 210	\$ 2,959	\$ 15,619	\$ 378
Add: Solid Waste PY Balance	378					
Add: Homeland Security PY Balance		36,112				
Add: Voided Checks		15,958	3,563	20		
Add: Omitted Debt Sinking Funds					698,040	
Less: Solid Waste PY Balance						(378)
Less: Homeland Security PY Balance	(36,112)					
Adjusted Beginning Balance	<u>\$ 661,296</u>	<u>\$ 531,455</u>	<u>\$ 3,773</u>	<u>\$ 2,979</u>	<u>\$ 713,659</u>	<u>\$ 0</u>

B. Adjustments to Beginning Balances for Capital Assets and Debt

The beginning balance for capital assets of governmental activities was increased by \$18,517 to \$16,747,728 due to errors noted during capital assets procedures. The beginning balance for long-term debt of governmental activities was overstated by \$50,000 on the First Mortgage Revenue Bonds Anticipation Notes, Series 2007 – Convention Facility – Racetrack.

C. Total Adjustment to Beginning Net Assets of Governmental Activities and Business-Type Activities

The beginning net assets of governmental activities and business-type activities have been restated in total by \$786,475 and \$378, respectively, to account for the changes in fund balances, capital assets, and long-term debt as discussed above.

Note 14. Net Assets Deficit

The Floyd County Fiscal Court has a net asset deficit of \$287,150 in their governmental activities due primarily to debt obligations of \$20,074,086.

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FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,397,300	\$ 2,397,300	\$ 2,504,384	\$ 107,084
In Lieu Tax Payments	25,000	25,000	52,185	27,185
Excess Fees			71,168	71,168
Licenses and Permits	16,000	16,000	12,672	(3,328)
Intergovernmental Revenue	549,400	934,400	566,654	(367,746)
Charges for Services	1,800,000	1,800,000	1,909,722	109,722
Miscellaneous	931,215	931,215	162,908	(768,307)
Interest	31,500	31,500	16,540	(14,960)
Total Revenues	5,750,415	6,135,415	5,296,233	(839,182)
EXPENDITURES				
General Government	2,040,486	2,265,486	2,068,174	197,312
Protection to Persons and Property	127,000	127,000	97,217	29,783
General Health and Sanitation	1,797,000	1,897,000	2,027,011	(130,011)
Social Services	76,000	76,000	62,447	13,553
Recreation and Culture	21,530	21,530	8,086	13,444
Bus Services	12,500	72,500	46,535	25,965
Debt Service	2,182,000	2,182,000	780,997	1,401,003
Administration	893,484	893,484	809,124	84,360
Total Expenditures	7,150,000	7,535,000	5,899,591	1,635,409
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,399,585)	(1,399,585)	(603,358)	796,227
OTHER FINANCING SOURCES (USES)				
Kentucky Advance Revenue Program Proceeds	1,400,000	1,400,000	241,050	(1,158,950)
Transfers From Other Funds			600,000	600,000
Transfers To Other Funds	(500,000)	(500,000)	(550,000)	(50,000)
Total Other Financing Sources (Uses)	900,000	900,000	291,050	(608,950)
Net Changes in Fund Balance	(499,585)	(499,585)	(312,308)	187,277
Fund Balance - Beginning (Restated)	499,585	499,585	661,296	161,711
Fund Balance - Ending	\$ 0	\$ 0	\$ 348,988	\$ 348,988

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

**Reconciliation to the Statement of Revenue, Expenditures
And Changes In Fund Balances**

Total Revenues	\$ 5,296,233
Less: Transfer In From PPC	<u>(14,050)</u>
Total Revenues to Statement	<u>\$ 5,282,183</u>
Total Expenditures	\$ 5,899,591
Less: Kentucky Advance Revenue Program Principal Paid	(241,050)
Less: Transfer Out To PPC for Debt Service	<u>(288,331)</u>
Total Expenditures to Statement	<u>\$ 5,370,210</u>
Other Financing Sources	\$ 291,050
Add: Transfer From to PPC	14,050
Add: Transfer Out to PPC for Debt Service	(288,331)
Less: Kentucky Advance Revenue Program Proceeds	<u>(241,050)</u>
Total Other Financing Sources (Uses) to Statement	<u>\$ (224,281)</u>

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,232,000	\$ 1,232,000	\$ 1,400,920	\$ 168,920
Interest	3,080	3,080	2,960	(120)
Total Revenues	<u>1,235,080</u>	<u>1,235,080</u>	<u>1,403,880</u>	<u>168,800</u>
EXPENDITURES				
Roads	867,303	867,303	857,290	10,013
Debt Service	194,000	194,000	56,833	137,167
Administration	538,697	538,697	481,978	56,719
Total Expenditures	<u>1,600,000</u>	<u>1,600,000</u>	<u>1,396,101</u>	<u>203,899</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(364,920)</u>	<u>(364,920)</u>	<u>7,779</u>	<u>372,699</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	100,000	100,000		(100,000)
Transfers From Other Funds			200,000	200,000
Transfers To Other Funds			(250,000)	(250,000)
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>100,000</u>	<u>(50,000)</u>	<u>(150,000)</u>
Net Changes in Fund Balance	(264,920)	(264,920)	(42,221)	222,699
Fund Balance - Beginning	<u>264,920</u>	<u>264,920</u>	<u>133,243</u>	<u>(131,677)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 91,022</u>	<u>\$ 91,022</u>

**Reconciliation to the Statement of Revenue, Expenditures
And Changes In Fund Balances**

Total Expenditures	\$ 1,396,101
Add: Expenditure for Assets Held For Resale	276,204
Add: Expenditure for Asset Purchase	<u>62,806</u>
Total Expenditures to Statement	<u>\$ 1,735,111</u>
Other Financing Sources	\$ (50,000)
Add: Financing Obligations Proceeds	<u>339,010</u>
Total Other Financing Sources (Uses) to Statement	<u>\$ 289,010</u>

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 665,000	\$ 734,000	\$ 560,335	\$ (173,665)
Charges for Services	5,000	5,000	3,896	(1,104)
Miscellaneous	29,000	29,000	30,867	1,867
Interest	1,000	1,000	740	(260)
Total Revenues	700,000	769,000	595,838	(173,162)
EXPENDITURES				
Protection to Persons and Property	1,199,800	1,268,800	1,303,701	(34,901)
Debt Service	493,000	493,000	463,912	29,088
Administration	457,200	457,200	357,397	99,803
Total Expenditures	2,150,000	2,219,000	2,125,010	93,990
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(1,450,000)	(1,450,000)	(1,529,172)	(79,172)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,400,000	1,400,000	1,550,000	150,000
Total Other Financing Sources (Uses)	1,400,000	1,400,000	1,550,000	150,000
Net Changes in Fund Balance	(50,000)	(50,000)	20,828	70,828
Fund Balance - Beginning	50,000	50,000	57,354	7,354
Fund Balance - Ending	\$ 0	\$ 0	\$ 78,182	\$ 78,182

**Reconciliation to the Statement of Revenue, Expenditures
And Changes In Fund Balances**

Total Expenditures	\$ 2,125,010
Less: Transfer Out To PPC for Debt Service	(463,912)
Total Expenditures to Statement	\$ 1,661,098
Other Financing Sources	\$ 1,550,000
Add: Transfer Out To PPC for Debt Service	(463,912)
Total Other Financing Sources (Uses) to Statement	\$ 1,086,088

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 5,950,000	\$ 6,074,869	\$ 3,650,421	\$ (2,424,448)
Charges for Services	100,000	100,000	99,099	(901)
Miscellaneous	2,347,000	2,347,000	2,055,852	(291,148)
Interest	7,000	7,000	6,659	(341)
Total Revenues	8,404,000	8,528,869	5,812,031	(2,716,838)
EXPENDITURES				
General Government	680,000	680,000	123,134	556,866
Protection to Persons and Property	211,000	211,000	112,000	99,000
General Health and Sanitation	3,175,449	3,238,318	1,354,232	1,884,086
Recreation and Culture	748,185	763,185	784,771	(21,586)
Roads	2,060,000	2,060,000	1,080,836	979,164
Debt Service	15,300	15,300	20,416	(5,116)
Capital Projects	825,000	862,000	753,864	108,136
Administration	285,066	295,066	159,124	135,942
Total Expenditures	8,000,000	8,124,869	4,388,377	3,736,492
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	404,000	404,000	1,423,654	1,019,654
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(900,000)	(900,000)	(1,550,000)	(650,000)
Total Other Financing Sources (Uses)	(900,000)	(900,000)	(1,550,000)	(650,000)
Net Changes in Fund Balances	(496,000)	(496,000)	(126,346)	369,654
Fund Balances - Beginning (Restated)	496,000	496,000	531,455	35,455
Fund Balances - Ending	\$ 0	\$ 0	\$ 405,109	\$ 405,109

**Reconciliation to the Statement of Revenue, Expenditures
And Changes In Fund Balances**

Total Expenditures	\$ 4,388,377
Add: Expenditure for Assets Held For Resale	275,000
Total Expenditures to Statement	<u>\$ 4,663,377</u>
Other Financing Sources	\$ (1,550,000)
Add: Financing Obligations Proceeds	275,000
Total Other Financing Sources (Uses) to Statement	<u>\$ (1,275,000)</u>

FLOYD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the state local finance officer. Expenditures may not exceed budgeted appropriations at the activity level.

**FLOYD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION**

June 30, 2007

FLOYD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION

June 30, 2007

	State Grants Fund	Federal Grant Fund	Revolving Loan Fund	Enhanced 911 Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 14,496	\$ 2,513	\$ 14,341	\$ 105,043	\$ 136,393
Total Assets	<u>\$ 14,496</u>	<u>\$ 2,513</u>	<u>\$ 14,341</u>	<u>\$ 105,043</u>	<u>\$ 136,393</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$	\$	\$	\$ 317	\$ 317
Unreserved:					
Special Revenue Funds	<u>14,496</u>	<u>2,513</u>	<u>14,341</u>	<u>104,726</u>	<u>136,076</u>
Total Fund Balances	<u>\$ 14,496</u>	<u>\$ 2,513</u>	<u>\$ 14,341</u>	<u>\$ 105,043</u>	<u>\$ 136,393</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2007

FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2007

	State Grants Fund	Federal Grant Fund	Bond Anticipation Fund	Revolving Loan Fund
REVENUES				
Taxes	\$	\$	\$	\$
Intergovernmental	20,700	34,299		
Miscellaneous				
Interest	40	30	1	119
Total Revenues	<u>20,740</u>	<u>34,329</u>	<u>1</u>	<u>119</u>
EXPENDITURES				
General Government	10,017	25,765		
Protection to Persons and Property				
General Health and Sanitation		9,030		
Debt Service				
Capital Projects			67	
Administration				
Total Expenditures	<u>10,017</u>	<u>34,795</u>	<u>67</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>10,723</u>	<u>(466)</u>	<u>(66)</u>	<u>119</u>
Net Change in Fund Balances	10,723	(466)	(66)	119
Fund Balances - Beginning (Restated)	3,773	2,979	66	14,222
Fund Balances - Ending	<u>\$ 14,496</u>	<u>\$ 2,513</u>	<u>\$ 0</u>	<u>\$ 14,341</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
OTHER SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2007
(Continued)

Enhanced 911 Fund	Total Non-Major Governmental Funds
\$ 226,466	\$ 226,466
	54,999
210	210
718	908
<u>227,394</u>	<u>282,583</u>
182,106	217,888
	9,030
5,008	5,008
	67
14,096	14,096
<u>201,210</u>	<u>246,089</u>
26,184	36,494
26,184	36,494
78,859	99,899
<u>\$ 105,043</u>	<u>\$ 136,393</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Marshall, Floyd County Judge/Executive
Members Of The Floyd County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 13, 2008. Floyd County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial statements of East Kentucky Utilities, Inc., a discretely presented component unit, have not been included in the financial statements of the County, resulting in a departure from generally accepted accounting principles. As a result, we have issued an adverse opinion on the aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Floyd County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Floyd County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Floyd County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations listed as items 2007-1, 2007-2, and 2007-4 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Floyd County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2007-03 and 2007-05.

The Floyd County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 13, 2008

FLOYD COUNTY
COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2007

**FLOYD COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2007

FINANCIAL STATEMENT FINDINGS

2007-1 The Fiscal Court Should Maintain Proper Records For The Public Properties Corporation Fund

The Fiscal Court did not maintain proper records for the Public Properties Corporation – Debt Service Fund (PPC). The County made all bank statements available, however, they did not maintain a receipt and disbursements ledgers or prepare a financial statement. We recommend the County maintain a receipts and disbursements and prepare a financial statement for the Public Properties Corporation Fund.

County Judge/Executive's Response: While the county did provide a financial statement in the quarterly and annual reports; however the County will maintain a receipt and disbursement ledger in the future and will make the necessary efforts to follow through on these recommendations.

2007-2 The Fiscal Court Should Ensure The Quarterly Report – Liabilities Section Is Accurate

The outstanding principal balance on the liabilities section of the 4th quarterly report did not agree to the confirmed debt balance at June 30, 2007. We recommend the County contact their banking institutions and determine the accurate outstanding principal balance as of June 30, 2007 to ensure the accuracy of their 4th quarterly report.

County Judge/Executive's Response: The Floyd County Treasurer stated that County's liability section was originated from statements given to the County by our creditors. However the County will request that our banking institutions make the necessary corrections to prevent this from happening in the future.

2007-3 The Fiscal Court Should Require Bids For All Purchases Over \$20,000

The Fiscal Court leased two Chevrolet Tahoes for the use of the County Judge/Executive and 911 Coordinator. The payments are \$824 for each lease for 39 months totaling \$32,526 for each lease. KRS 424.260 states when the County makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. We recommend the County not enter into lease agreements when more than \$20,000 of expenditures are required without advertising for bids.

County Judge/Executive's Response: With regards to the County's use of the 2007 Tahoe the County has entered into a rental agreement. The County will make the necessary corrections to prevent this from happening in the future.

FLOYD COUNTY
Comments And Recommendations
Fiscal Year Ended June 30, 2007
(Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED)

2007-4 The Fiscal Court Should Maintain An Accurate And Complete Schedule Of Capital Assets

The Fiscal Court did not include all new additions to the capital assets list. They did not include all new land, building improvements and vehicles purchased during fiscal year 2007 totaling \$926,549. Furthermore, the County did not have capital road expenditures separated from operating expenditures, or separated between paving projects and bridge replacement projects. We recommend the County maintain an accurate capital assets listing throughout the year and maintain a log of capital road expenditures that includes a listing of roads paved, bridges replaced as well as any other capital projects.

County Judge/Executive's Response: The County agrees with this statement and shall have the Road Department and Finance Officer follow this recommendation to prevent this from occurring in the future. The Finance Officer shall periodically review the capital asset list to make sure that this recommendation is being followed as stated.

2007-5 The Fiscal Court Should Pursue A Buyer To Purchase East Kentucky Utilities, Inc.

In October 2004, the Fiscal Court began the process of assuming control of East Kentucky Utilities, Inc. (EKU), a gas company, in order for approximately 1,000 residents to maintain utilities. KRS 67.083 (3) states that: "The Fiscal Court shall have the power to carry out governmental functions necessary for the operation of the county. Except as otherwise provided by statute or the Kentucky Constitution, the Fiscal Court of any county may enact ordinances, issue regulations, levy taxes, issue bonds, appropriate funds, and employ personnel in performance of the following functions..." KRS 67.083(3)(r) goes on to state: "Provision of water and sewage and garbage disposal service but not gas or electricity. We recommend the Fiscal Court comply with KRS 67.083 and pursue a buyer to purchase EKU.

County Judge/Executive's Response: The County agrees with this statement. The Board of Directors of East Kentucky Utilities, which does not count as their members any current members of the Floyd County Fiscal Court, voted unanimously to request that the Fiscal Court advertise the sale of this company for bids. The Fiscal Court on March 27, 2008 voted to advertise the sale of the East Kentucky Utilities to the highest and/or best bidder. The County will make the necessary efforts to follow through on these recommendations.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

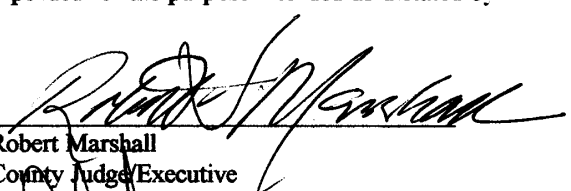
FLOYD COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

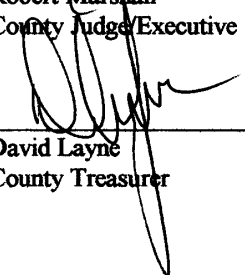
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
FLOYD COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2007

The Floyd County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Robert Marshall
County Judge/Executive



David Layne
County Treasurer

